

**MINUTES OF THE MEETING OF
THE ADVISORY COMMITTEE OF THE
LOCAL GOVERNMENT PROPERTY INSURANCE FUND**

Wednesday, April 5, 2006

**Officer of the Commissioner of Insurance
125 South Webster, Room 227
Madison, Wisconsin**

PRESENT: Kevin Houlihan, Chair, City of Madison
Glinda Loving, Vice Chair, Milwaukee Metropolitan Sewage District
Carole Charles, Outagamie County
Connie Goss, Chippewa County
John Rath, Milwaukee County
John Roth, Lake Geneva School District
Doug Saubert, City of Whitewater
Ken Tronnier, Portage County
Barb Wegner, Dane County
Jerry Runice, Berlin School District
Don LaFontaine, City of Oshkosh

GUESTS: Eileen Mallow, Deputy Commissioner of the Insurance
John Montgomery, Acting Administrator, Division of Administrative
Services
Dan Bubolz, Office of the Commissioner of Insurance, Fund Officer
Lowell Carter, The ASU Group
Dean Boes, The ASU Group
Greg Grunow, The ASU Group
Dave Marchant, Marchant Consulting
Gary Thoreson, Marchant Consulting

ABSENT: Laura Stauffer, 2nd Vice Chair, Waukesha County
Nicholas Alioto, Tigerton School District
Keith Lucias, Ashwaubenon School District
Gary Hansen, Rosendale-Brandon School District
Julee Helt, Village of Waunakee

Prior to the meeting being called to order Gary Thoreson, from Marchant Consulting gave a demo of the on-going development of the "Electronic Statement of Values Web Interface." The Advisory Committee appreciated the demo as work continues with plans to schedule a meeting of the working group to continue to refine this project as it's being implemented.

Kevin Houlihan **called meeting to order** at 10:00 a.m.

Kevin Houlihan welcomed attendees and introductions were made. New members welcomed included Mary Lee Powell, from the Village of Dickeyville and Jim Wyss from the City of Manitowoc.

RENEWAL OF 2006 COMMITTEE MEMBERS

Without any objections Kevin Houlihan renewed the following members for additional three year terms: Carole Charles, Julee Helt, Kevin Houlihan, Glinda Loving, Mary Lee Powell, Doug Saubert & Laura Stauffer.

APPOINTMENT OF OFFICERS

Kevin relinquished the chair duties while Vice Chair Loving requested nominations for position of Chair of the Advisory Committee. John Rath nominated Kevin Houlihan and seconded by Don LaFontaine. Carole Charles moved to close nominations. On a unanimous ballot Kevin Houlihan was elected and will serve as Chair of the Advisory Committee for the remainder of the year 2006 until annual elections are conducted in the spring of 2007.

Kevin resumed the duties of Chair and requested nominations for position of Vice Chair of the Advisory Committee. John Rath nominated Glinda Loving and seconded by Don LaFontaine. Nominations were closed and on a unanimous ballot Ms. Loving was elected to serve another annual term as Vice Chair of the Advisory Committee.

Kevin asked for nominations for 2nd. Vice Chair of the Advisory Committee. Kevin noted that the incumbent, Laura Stauffer had indicated a potential recurring conflict with the spring meeting date thus she would not be seeking reappointment. Carole Charles nominated Connie Goss and seconded by John Rath. Nominations were closed and on a unanimous ballot Ms. Goss was elected to fill the position of 2nd. Vice Chair for an annual term.

COMMITTEE MEMBERSHIP CHANGES

Carole Charles announced her resignation from the Rate Analysis Subcommittee.

John Rath announced his retirement from Milwaukee County effective in two weeks.

John Roth announced his upcoming retirement from Lake Geneva Schools in August.

Following some discussion about committee membership transitions and chair appointments Kevin Houlihan announced he will be soliciting membership interest to serve on subcommittees including serving as the chair and specifically discussing the Chair Position of the Rate Analysis Subcommittee with Nick Alioto.

Members were reminded to contact Kevin Houlihan with an interest to serve since he will be making appointments at his discretion prior to the fall Advisory Committee meeting.

Dan Bubolz also noted that OCI Insurance Administrator Eileen Mallow will be stepping down from overseeing management of the Local Government Property Insurance Fund due to an upcoming OCI internal reorganization which has her taking over other duties at OCI. Members took a moment to thank Eileen for her dedicated years of service to the Fund. Dan also introduced John Montgomery, currently Acting Administrator of the Division of Administrative Services at OCI, who would be taking over Eileen's role with the Fund.

AGENDA REVIEW

Kevin asked for additions or changes to the agenda and none were noted.

Upon a motion duly made by John Rath and seconded by Glinda Loving, it was unanimously

RESOLVED, that the agenda for the April 5, 2006 meeting be approved.

REVIEW AND APPROVAL OF October 5, 2005 MINUTES

John Rath asked that Paragraph 3 on Page 10 be stricken from the minutes. Willis did not bid on Milwaukee County's property coverage as he stated they had at the last meeting.

Upon a motion duly made by Glinda Loving and seconded by Carole Charles, it was unanimously

RESOLVED, that the minutes of the Advisory Committee of October 5, 2005, with paragraph 3, on page 10 stricken from the minutes be approved.

OLD BUSINESS/MANAGERS REPORT

Dan Bubolz provided a brief update on the Reinsurance. Renewal date remains March 31, and the Fund retention limits remained the same with a marginal premium increase. Per a request by Mr. Rath, Dan Bubolz will explore the possibility of changing the reinsurance renewal date to coincide with the Fund's fiscal year.

FINANCIAL REPORT

The Fund experienced a good first half of fiscal 2006 as a result of relatively stable premium income, moderate losses and low operating expenses. A net income of \$3.4 million for the six months ended December 31, 2005, was reported. If subsequent claim reserve strengthening was all applied to this period's net income, net income would have been more accurately reported at

approximately \$2.8 million. By comparison the Fund had a net income of \$10.3 million for fiscal year ended June 30, 2005.

Key financial statistics included in the statutory basis financial are as follows (in millions):

	December 31, 2005	June 30, 2005	June 30, 2004
Total Assets	\$52.7	\$45.9	\$36.1
Policyholders Surplus	\$37.9	\$34.5	\$24.3
	Six Months Ended December 31, 2005	Year Ended June 30, 2005	Year Ended June 30, 2004
Direct Premium Earned	\$12.8	\$25.5	\$26.7
Direct Losses Incurred	\$ 7.6	\$ 9.3	\$ 9.9
Underwriting Gain	\$ 2.5	\$ 9.2	\$ 9.0
Net Income	\$3.4	\$10.3	\$9.8

The Fund's net combined ratio is .77 (77%) for the six months ended December 31, 2005, compared to a combined ratio of .55 for the fiscal year ended June 30, 2005.

ADMINISTRATOR'S REPORT

Dean Boes gave a brief update on policy and claims administration activity. Claims reported and claims paid have remained relatively flat.

Lowell Carter gave an update on terrorism issues related to the Fund. The Policyholder Notice contained in the A C packet will be sent to all policyholders during 2006. In addition, before the end of 2006 an endorsement that discloses any premium impact of terrorism coverage and the federal government's role in terrorism coverage will be sent to policyholders. At the same time, a second endorsement will be distributed that contains conditional language excluding most terrorism coverage after 12/31/07 if the federal government does not renew TRIA.

COMMITTEE REPORTS

Don LaFontaine presented the report for the **Claims and Policy Issues Subcommittee**.

Upon a motion duly made by Don LaFontaine and seconded by Doug Saubert it was unanimously

RESOLVED, that the Contractors Equipment reporting limit be raised from \$5,000 to \$10,000 per item and be added to the policy rewrite issues list.

At their January 2006 meeting, the Subcommittee discussed the possibility of the Fund offering Equipment Breakdown Coverage (Boiler and Machinery). It was thought the Fund might be able to provide coverage at a cost less than mono-line coverage due to a pooled program, and at lower administrative cost to policyholders. The Subcommittee therefore recommended to the Advisory Committee that OCI staff explore the markets for reinsurers who might be interested in providing Equipment Breakdown Coverage through the Fund's policy. A discussion ensued with Dan Bubolz noting loss costs are likely to be the same regardless of which insurer underwrites the program; the Fund will incur costs to administer the "pooled program" including subcontracting services relating to ensuring that routine inspections are being done; putting boiler and machinery coverage into the Fund's policy will now obligate it to provide that coverage regardless of what the excess market does in the future; and staff has finite resources with other high priority projects commanding its time. No motions were made concerning pursuing the topic of Fund Boiler and Machinery Coverage at this time.

Carole Charles gave the report for the **Loss Control Subcommittee**.

The subcommittee recommends that the Probable Maximum Loss report presented by Dan Bubolz be accepted as presented.

The subcommittee recommends that real case histories of claims paid by the Fund be communicated to all policyholders and suggestions be presented for the prevention of such losses.

The subcommittee recommends OCI and/or ASU staffs make more educational presentations to groups such as the Wisconsin Counties Association as has been done recently at PRIMA and other gatherings. The emphasis could be on loss control activities.

The subcommittee discussed loss control at length at the February 22, 2006 meeting and reviewed several graphs prepared by ASU. There were no discernable trends present in any of the loss data. ASU will be working with the Subcommittee Chair to prepare some examples of reconstruction costs with and without sprinklers in a building.

The advisory committee accepted the report of the loss control subcommittee including recommendations contained therein.

Glinda Loving gave the report for the **Reinsurance/Flood Subcommittee**. Ms. Loving reported that OCI staff updated the subcommittee on the progress of the excess of loss renewal at the time of the subcommittee meeting and the

subcommittee was very comfortable with the direction being taken. That direction was to renew, at expiring terms, with a modest increase in rates. The subcommittee also concurred with OCI's intent to study whether increasing the Fund's annual aggregate retention amount might be in the Fund's best interests. Dan Bubolz reported that after final quotes were analyzed maintaining the status quo on retention levels was determined to be the best option for the Fund.

John Rath, in Nick Alioto's absence, gave the report for the **Rate Analysis Subcommittee**. General discussion was held on each recommendation resulting in the following specific actions being taken:

Upon a motion duly made by Connie Goss and seconded by Glinda Loving it was unanimously

RESOLVED, that the Contractors Equipment reporting limit be raised from \$5,000 to \$10,000 per item and be added to the policy rewrite issues list.

Upon a motion duly made by John Rath and seconded by Doug Saubert, it was unanimously

RESOLVED that the Fund limit Extra Expense Coverage in the Policy to \$5,000,000 with an option to purchase additional coverage, rated at 10% of the building and contents rate for each entity.

A motion was made by John Roth and seconded by John Rath, for discussion purposes, to adopt the subcommittee's recommendation for a rate decrease as detailed in Option #1 (of an actuarial worksheet attached to these minutes) with the additional difference in Option #3 reduction being paid as a dividend to policy holders.

Prior to the vote, members took turns voicing concerns over a Fund dividend at this time. Some voiced concern over the size of the potential dividend. Others voiced philosophical concerns over how a dividend typically gets deposited to the entity's general fund, which does nothing to reduce the insurance budget line from which the insurance premiums were originally paid. In contrast, they noted that a rate reduction would impact the insurance budget line directly. Others raised equity concerns over issuing a dividend based purely on pro-rata premium written if that could reward an entity that had unusually high losses in the base year used for calculating the dividend. Another comment made was that during times of a competitive market when rates and premiums are being closely compared it makes more sense to focus on rate reductions than on issuing a one-time dividend. And at that, some members felt it was wise to be more conservative in the total amount of the reduction than what was being recommended by the rating subcommittee. Following discussion, the motion failed to pass by a substantial margin.

Upon a motion duly made by Carole Charles and seconded by Glinda Loving, on a vote of 4 in favor, 1 opposed & 1 abstained, it was

RESOLVED, to recommend a rate decrease as detailed in Option #2 (of the Actuary report).

During discussion, and prior to the above vote, there was discussion about why only two specific levels of deductibles (the \$1,000 and \$2,500) were getting adjusted and not all the deductibles classes. Dan Bubolz responded that under option #2 all deductibles are getting a 5% reduction in the base rate; but other than in the two deductible levels being adjusted, there was not sufficient actuarial credibility to warrant making adjustments to the other deductible classes at this time. As noted above, the motion passed.

NEXT MEETING DATE

The fall meeting of the LGPIF Advisory Committee will be October 12, 2006, at 9:30AM in Madison at the Office of the Commissioner.

ADJOURNMENT

Upon a motion duly made by Glinda Loving and seconded by Don LaFontaine, it was unanimously

RESOLVED, that the meeting of the Advisory Committee be adjourned at 12:00 p.m.

Respectfully submitted,

Dean Boes, Acting Secretary
Date

ATTEST:

Kevin Houlihan, Chair

Date